

QUESTIONS AND ANSWERS

Regulation Of Bank Indonesia Number 20/09/PBI/2018 On Sharia Certificate Of Deposit Transactions In The Money Market

1. Q: What is the background of issuance of Bank Indonesia Regulation on Sharia Certificate of Deposit Transactions in the Money Market?
A:
 - a. To achieve and maintain rupiah rate stability, Bank Indonesia determines and implements monetary and macroprudential policies as well as rupiah payment and management system. The foregoing policies need to be supported by liquid and efficient financial market condition, including sharia financial market. Sharia financial market is developed among others through development of instruments, infrastructures, regulations, and investor basis in the money market.
 - b. One of sharia financial market instruments is sharia certificate of deposit. Sharia certificate of deposit may serve as one of liquid instruments, which may support improvement of sharia banking funding structures through longer funding term, support potential increase in third party's funds, boost funding efficiency, and become one of national economy funding sources.
 - c. Regulation of sharia certificate of deposit by Bank Indonesia is in line with Article 18 of Regulation of Financial Services Authority Number 10/POJK.03/2015 on Issuance of Certificate of Deposit by Banks, setting forth that transfer of scripless certificate of deposit through the money market, subject to the provisions of the competent authority, namely Bank Indonesia as the authority of money market. The authority of Bank Indonesia is also confirmed in the Law on Bank Indonesia confirmed in BI Regulation on Monetary Regulation and Supervision and BI Regulation on Money Market.
2. Q: What is the scope of regulation in this BI Regulation? What is the position of BI Regulation on Sharia Certificate of Deposit Transactions pertaining to OJK Regulation Number 10/POJK.03/2015 on Issuance of Certificates of Deposits by Banks and OJK Circular No.49/SEOJK.03/2017 on Mechanism of Issuance of Sharia Certificates of Deposits?

- A: Sharia certificate of deposit specified herein constitute those transacted in the money market. In issuance aspect, an issuing Bank must refer to the applicable OJK Regulation and OJK Circular. However, if the certificate of deposit is aimed for transactions in the money market by its investor (making it a money market instrument), the issuer must also refer to BI regulation on Certificate of Deposit Transactions in the Money Market.
3. Q: Why is the nominal value of issued sharia certificate of deposit specified Rp1.000.000.000,00 (one billion rupiah) at the minimum or its equivalent in foreign currency?
- A: Issue size is determined at least Rp1,000,000,000.00 (one billion rupiah) or its equivalent in foreign currency to boost the use of sharia certificate of deposit as a wholesale funding source and increase the potential to be transacted in the secondary market.
4. Q: Why it is specified that a sharia certificate of deposit has a term of 1 (one) month, 3 (three) months, 6 (six) months, 9 (nine) months, 12 (twelve) months, 24 (twenty-four) months, or 36 (thirty-six) months?
- A: In addition to harmonization of OJK regulation, the regulation aims to support determination of standard time to boost liquidity of transactions in the secondary market and create benchmark of yields or profit sharing for sharia certificate of deposit.
5. Q: One of the criteria for sharia certificate of deposit to be transacted in the money market is issued not by using interest mechanism, including discount mechanism. What does discount mean?
- A: "Discount" means selling sharia certificate of deposit below par.
6. Q: Is a bank desirous of issuing sharia certificate of deposit transacted in the money market obliged to obtain a permit from Bank Indonesia although the bank has obtained a permit for issuance of scripless certificate of deposit from OJK?
- A: Yes. As money market authority, Bank Indonesia requires a Bank issuing sharia certificates of deposits to be transacted in the money market to obtain a permit from Bank Indonesia. The permit is a must so that the bank may become an eligible issuer of certificate of deposit transacted in the money market. A permit from Bank Indonesia is required for a Bank issuing sharia certificate of deposit for the first

time to be transacted in the money market. If a Bank intends to reissue, the Bank will only need to submit a report on realization of issuance to Bank Indonesia.

A copy of permit from Bank Indonesia for issuance of sharia certificate of deposit must be submitted to LPP as part of supporting documents of registration of sharia certificate of deposit in LPP administration.

7. Q: Is a bank, which has issued sharia certificate of deposit previously, obliged to request a permit from Bank Indonesia?
A: A Sharia Certificate of Deposit issued prior to the enforcement of this Bank Indonesia Regulation may remain transacted in the money market until their due dates. If a Bank intends to reissue certificate of deposit transacted in the money market upon enforcement of this BI regulation, the Bank must obtain a permit from Bank Indonesia.
8. Q: Why are banks and securities companies allowed to conduct sharia certificate of deposit transactions directly or indirectly through supporting institutions in sharia certificate of deposit? Does a bank herein mean BPR and BPRS?
A: Banks and securities companies may conduct direct transactions because they have direct accounts with LPP. However, banks and securities companies have an option to conduct indirect transactions through supporting institutions in sharia certificate of deposits as specified in this BI regulation.
Bank means a commercial bank, sharia commercial bank, and sharia business unit.
9. Q: What does a supporting institution in sharia certificate of deposit transactions?
A: Supporting institution in sharia certificate of deposit transactions includes securities companies and Money brokers permitted to serve as intermediaries of implementation of sharia certificate of deposit transactions.
10. Q: Why must a sharia certificate of deposit transaction be settled within 3 (three) working days at the maximum after a transaction (t+3)?
A: The transaction settlement period arrangement aims to reduce potential risks borne by a counterparty in suffering from fund/securities transfer failure, which may result in failure to settle an agreed transaction and may eventually undermine the money market credibility.

11. Q: Is it possible to transact sharia certificate of deposit, which are issued prior to the enforcement of this BI regulation and have not referred to the specified criteria, in the money market?
- A: Sharia certificate of deposit issued prior to the enforcement of this BI Regulation may remain transacted in the money market until their due dates.
12. Q: Because OJK regulation on Sharia Certificate of Deposit and BI regulation on External Debts do not prohibit transfers of sharia certificates of deposits to non-resident customers, why does this BI regulation prohibit such transfer in the secondary market?
- A: Bank Indonesia prohibits selling of sharia certificate of deposit to be transacted and/or transferred in the money market from residents to non-residents in order to prevent increasing exposure of external debts arising from sharia certificate of deposit transactions in the secondary market.
13. Q: What is the reporting mechanism of sharia certificate of deposit transactions by a bank considering such reporting will apply on the enforcement date of BI regulation?
- A: Bank is currently obliged to report sharia certificate of deposit transactions as part of mandatory reporting of securities trade in the secondary market as specified in the provisions for daily reporting of commercial banks. Therefore, mandatory reporting by banks specified in this Bank Indonesia regulation shall have been implemented daily by banks through daily reporting of commercial banks.

